Before the FEDERAL COMMUNICATIONS COMMISSION RECEIVED Washington, D.C. 20554

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In the Matter of)	OFFICE IN CORETAIN ASSOCIATION
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Policy and Rules Concerning)	
the Interstate, Interexchange Marketplace) CC Docke	et No. 96-61
)	
Implementation of Section 254(g) of the)	W. Maria
Communications Act of 1934, as amended)	WALL STATE OF SURVEY
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REPLY COMMENTS OF THE INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

The Information Technology Association of America ("ITAA"), by its attorneys, hereby replies to the comments that were filed in response to the Commission's Notice of Proposed Rulemaking ("Notice") in the above-captioned proceeding on April 25, 1996.

I. SUMMARY

As set forth more fully below, the Commission should continue to prohibit the bundling of customer premises equipment ("CPE") and interstate interexchange services by both dominant and non-dominant interexchange carriers ("IXCs"). As the record of this proceeding makes clear, bundling would needlessly raise the price of interexchange services, limit consumer choice and disserve the public interest. The Commission should also reject AT&T's proposal that the Commission issue a further notice of proposed rulemaking to examine whether the

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See Policy and Rules Concerning the Interstate, Interexchange Marketplace: Implementation of Section 254(g) of the Communications Act of 1934, as amended, Notice of Proposed Rulemaking, CC Docket No. 96-61, FCC 96-123 (released Mar. 25, 1996) [hereinafter "Notice"]. Unless otherwise specified, all comments cited herein were filed on April 25, 1996 in response to Section VIII of the Notice.

bundling of basic transmission services and enhanced services should be permitted. As is true of CPE, the bundling of basic and enhanced services would disserve the public interest.

II. THE COMMISSION SHOULD NOT RELAX OR ELIMINATE ITS PRO-CONSUMER, PRO-COMPETITIVE UNBUNDLING REQUIREMENT

In the <u>Notice</u>, the Commission acknowledges that the unbundling of regulated communications services and unregulated CPE has proven to be of significant value to consumers.² The comments reflect widespread recognition of just how invaluable unbundling has been in promoting the development of a competitive CPE market. Typical are the comments filed by the Consumer Electronics Retailers Coalition ("CERC"), which explain that:

The antibundling rule has spawned the dramatic growth in the variety of telephones... answering devices, fax machines, as well as personal computers with modems. Business and retail customers may now purchase CPE in thousands of locations throughout the nation, making their own choices among features, price and service after the sale -- consonant with their particular requirements -- and confident that the equipment is compatible with the telephone network.³

In the words of MCI, "[t]hat the rule has served well is beyond any legitimate dispute "4

The essential question, then, is why the Commission is even contemplating a change in a rule that, by all accounts, has served the public interest remarkably well and that continues to be needed. As entities representing consumers, equipment manufacturers and

² See id. at ¶ 86.

³ Comments of Consumer Electronics Retailers Coalition at 7-8 [hereinafter "CERC Comments"].

⁴ Comments of MCI Telecommunications Corporation at 24 [hereinafter "MCI Comments"].

equipment vendors have persuasively demonstrated, eliminating the unbundling rule would limit consumer choice and expose consumers to potentially abusive marketing practices.⁵

First, permissive bundling would reduce the number of CPE options available to consumers. As CERC notes, "it would be impossible for a carrier to put together a bundle of services and equipment that would satisfy every customer. To allow carriers to pick and choose . . . which CPE to bundle . . . with transmission services would inevitably result in consumers being forced to choose among packages, none of which represents the ideal." MCI concurs in this assessment:

It would be a mistake to assume, presumptively, that consumers will benefit if they are allowed to purchase "packages" [from carriers]. The practical effect of such an approach would be that consumers would need to pay for a product they did not want and, accordingly, they would be made to pay additionally for the product they really wanted.⁷

ITAA agrees that "these results are 'consumer-unfriendly,' to say the least."8

ITAA also shares IDCMA's concern that major carriers will likely partner with a small number of CPE manufacturers, forcing those manufacturers without alliances out of the market and discouraging those in alliances from developing intelligent CPE that would compete

See, e.g., Comments of Pennsylvania Public Utility Commission at 11-13 [hereinafter "PAPUC Comments"]; Comments of Alabama Public Service Commission at 10 [hereinafter "APSC Comments"] ("We see no benefit in relaxing the unbundling requirement; however, we do see the opportunity for price discrimination and loss of choices for the consumer if carriers are allowed to bundle CPE and interexchange services").

⁶ CERC Comments at 6.

⁷ MCI Comments at 25.

⁸ Id.

with the services of their "carrier-patrons." Consumers <u>cannot</u> possibly benefit from policies which encourage such alliances, where the service provider's negotiating power and judgment are substituted for those of the consumer. 10

Second, bundling will discourage innovation, not only by reducing the number of CPE firms, but also by limiting the incentives of the remaining firms to innovate. The IXCs, after all, have "little, if any, incentive to offer consumers equipment that will decrease demand for network-based facilities and services." When faced with the question whether intelligence should be CPE-based or network-based, IXCs will always choose the network. CPE manufacturers traditionally have made the opposite choice. Consumers have benefitted from this competition, which can only be expected to increase as network elements become more and more unbundled. Consumers would be denied the benefits of this healthy competition between carriers and manufacturers if the IXCs were permitted to bundle their services with highly subsidized, but less "intelligent," CPE.

Third, bundling raises fundamental consumer protection concerns. As explained by the Pennsylvania Public Utility Commission, bundling will allow IXCs to use "low-cost" CPE to lure customers -- both business and residential -- into accepting disadvantageous or

See Comments of Independent Data Communications Manufacturers Association at 19-20 [hereinafter "IDCMA Comments"].

¹⁰ See also MCI Comments at 24 n.38 ("bundling locks customers into a vendor and perhaps even a technology, thus diminishing the vitality of marketplace competition").

¹¹ IDCMA Comments at 17.

unreasonable service terms.¹² In this regard, the Alabama Public Service Commission ("APSC") correctly notes that bundling will prevent consumers from receiving clear pricing information. The APSC's concerns are not theoretical; they are based on the practical, day-to-day consumer frustration and confusion caused by lack of straightforward pricing information and signals.¹³ Moreover, as ITAA noted in its initial comments, the unfairness of bundling will be compounded by the fact that even those customers that opt <u>not</u> to acquire bundled CPE will be required to subsidize the bundled CPE used by others.

ITAA recognizes that several non-carriers and, not surprisingly, most carriers support at least a permissive bundling rule. A review of the non-carrier comments reveals that their primary interest (where an interest is expressed) is in permitting one-stop shopping and in eliminating the transaction costs supposedly associated with purchasing unbundled CPE. ¹⁴ The unbundling rule, however, does <u>not</u> prevent one-stop shopping. Carriers remain free to sell or lease CPE to any subscriber or potential subscriber at any competitive price and term they

See PAPUC Comments at 12. Cf. Comments of Tennessee Attorney General at 5-6 (not commenting on bundling per se, but expressing concern that bundling and detariffing limit consumers' ability to determine the cost of service); Comments of Ohio Consumers' Counsel at 9 (consenting to bundling, but arguing that tariffing requirements should be retained so that consumers can know, in advance, the true cost of the services to which they are subscribing).

See APSC Comments at 9-11. MCI acknowledges this problem. It notes that one disadvantage of bundling is that "[t]he true cost of CPE is hidden in a bundle, thus depriving consumers of the ability to make independent decisions based on features and price." MCI Comments at 24 n.38.

See Comments of American Petroleum Institute, <u>passim</u>; Comments of Florida Public Service Commission at 17-19; Comments of Louisiana Public Service Commission at 9-11.

choose. They are thus in a position to minimize their customers' transaction costs. The only thing that carriers may not do is recoup the cost of the CPE through their service charges.

For their part, the carriers offer little support for eliminating the unbundling rule, other than bald assertions that the rule is no longer necessary and that consumers would benefit from its elimination. They certainly do not purport to weigh the demonstrable benefits and minimal costs of the current rule against the significant costs and speculative benefits of allowing bundling. The carriers' interest in bundling is, of course, understandable. As transmission services become more and more commodity-like, it will be increasingly difficult for an individual carrier to differentiate itself from others based solely on the inherent quality of its offerings. Bundling could offer each carrier an additional basis upon which to differentiate itself from others. The public interest, however, does not lie in facilitating the carriers' efforts to enhance their marketing tools. Rather, the public interest lies in preserving highly competitive markets where they exist, promoting competition in less-than-competitive markets, and, in the process, protecting consumers from harmful marketing and pricing practices. The unbundling rule is essential to each of these ends.

See, e.g., Comments of AT&T Corp. at 27 [hereinafter "AT&T Comments"]; Comments of Sprint Corporation at 28.

¹⁶ Indeed, ITAA believes that the public interest is best served by policies which hasten the day when transmission services are available on a commodity basis.

III. THE COMMISSION SHOULD REJECT AT&T's REQUEST TO ALLOW THE BUNDLING OF BASIC AND ENHANCED SERVICES

AT&T's comments in this proceeding are not limited to the bundling of CPE. Citing the robust, diverse and "highly fragmented" nature of the enhanced services market, AT&T suggests that the public would somehow benefit if carriers were also allowed to restrict consumer choice in the information services marketplace by bundling basic and enhanced services. ¹⁷ In essence, AT&T has asked the Commission to undo years of effort and to turn its back on the regulatory framework which has spawned the enhanced services market, just as the benefits of those efforts are beginning to materialize on a broad scale.

ITAA will not burden the Commission with a recitation of the lengthy history of the Computer Rules (or with lengthy arguments which play to AT&T's interest in having the Commission consider this issue now). The long-recognized, critical fact is that non-carrier enhanced service providers ("ESPs") require access to unbundled network services at competitive prices and on nondiscriminatory terms in order to succeed. Non-carrier ESPs are beholden to the IXCs for the basic transmission services they need to provide their services to their customers. The history of the Commission's Computer Inquiries is, in part, the history of separating basic network services from enhanced services and minimizing the opportunities for carriers to discriminate in favor of their own enhanced services.

See AT&T Comments at 28-30. MCI's assumption that elimination of the CPE unbundling requirement would necessarily result in the elimination of the enhanced services unbundling requirement is misplaced. See MCI Comments at 22 n.33. Procedurally, the Commission has not sought comment on this issue and therefore cannot, consistent with the Administrative Procedures Act, modify the unbundling rule as it applies to enhanced services in this proceeding. Substantively, MCI's assumption grossly oversimplifies the similarities between CPE and enhanced services.

That the Commission has found the interexchange services market to be "substantially competitive" does not alter the analysis. Although the number of IXCs has grown dramatically, there remain only three IXCs with widely available facilities-based networks. This is an extremely limited market from which ESPs can purchase the ubiquitous transmission services they require. Although regional and niche carriers may at some point play an important role in the marketplace, their networks are not a substitute for national networks. Given the state of the marketplace, there simply is no basis for considering AT&T's proposal.

The realities of the international marketplace provide further evidence of the danger to the public interest presented by AT&T's proposal. ITAA's members often face difficulties in obtaining circuits from foreign service suppliers. These difficulties would be compounded if -- following the lead of the Commission -- foreign carriers were to restrict the availability of unbundled basic services. The Commission should be loathe to encourage such action, particularly at a time when the United States is the acknowledged world leader in information services. ¹⁹

Ultimately, consideration of AT&T's proposal would do nothing but chill the growth of the enhanced services market. AT&T properly recognizes that the enhanced services market is fragmented. This is beneficial in that it provides an environment conducive to new

Indeed, the three nationwide facilities-based carriers continue to collectively control the bulk of the interexchange market. As of the close of 1995, AT&T, MCI and Sprint accounted for approximately 82 percent of the interexchange market measured by revenues. See Long Distance Market Shares: Fourth Quarter 1995, Common Carrier Bureau, Industry Analysis Division, at Table 6 (Mar. 1996).

¹⁹ <u>U.S. Industrial Outlook 1994</u>, Department of Commerce, International Trade Administration, 25-1 to 25-5 (1994).

entrants and innovation. At the same time, it makes ESPs vulnerable to the types of discrimination in which the IXCs could engage if they were free to bundle basic and enhanced services. To preserve today's competitive environment, the Commission should continue to prohibit IXCs from bundling their basic and enhanced service offerings, and reject AT&T's proposal to revisit this issue.

IV. CONCLUSION

For all of the reasons set forth above and in ITAA's initial comments, ITAA urges the Commission to affirm its longstanding and beneficial unbundling requirement for CPE and to reject AT&T's ill-conceived suggestion that the Commission revisit the equally beneficial and longstanding unbundling requirement that applies to enhanced services.

Respectfully submitted,

INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA

By:

Joseph P. Markoski

Marc Berejka

Squire, Sanders & Dempsey

1201 Pennsylvania Avenue, N W.

P.O. Box 407

Washington, D.C. 20044

(202) 626-6600

Its Attorneys

May 24, 1996

CERTIFICATE OF SERVICE

I, Marc Berejka, certify that a copy of the foregoing "Reply Comments of the Information Technology Association of America" has been served by first-class mail this 24th day of May 1996 on each of the parties listed below.

Andrew D. Lipman Erin M. Reilly Swidler & Berlin, Chartered 3000 K Street, N.W. Suite 300 Washington, DC 20007

John F. Beasley William B. Barfield Jim O. Llewellyn 1155 Peachtree Street, N.E. Suite 1800 Atlanta, GA 30309-2641

Charles P. Featherstun David G. Richards 1133 21st Street, N.W. Washington, DC 20036

Mark A. Scheraga Senior Auditor Scheraga and Sheldon Associates 39-40 Broadway Fair Lawn, NJ 07410

Ann E. Henkener Assistant Attorney General Public Utilities Section 180 East Broad Street Columbus, OH 43215-3793 S. Joseph DorrVice PresidentAmerican Computer and ElectronicsCorporation209 Perry ParkwayGaithersburg, MD 20877

Earl Pace
Founder & Chair, Legislative
Committee
National Black Data Processors
Association
1250 Connecticut Avenue, N.W.
Suite 600
Washington, DC 20036

Winston R. Pittman
President
Chrysler Minority Dealer Association
27777 Franklin Road
Southfield, MI 48034

Ms. Bettye Gardner
President
The Association for the Study
of Afro-American Life and
History, Inc.
1407 - 14th Street, N.W.
Washington, DC 20005-3704

John Crump
Executive Director
National Bar Association
1225 11t Street, N.W.
Washington, DC 20001-4217

John Abernathy
Director
Network Analysis Center, Inc.
45 Executive Drive
Suite GL 3
Plainview, NY 11803

Marlin D. Ard John W. Bogy Pacific Telesis Group 140 1530A San Francisco, CA 94105

Margaret E. Garber Pacific Telesis Group 1275 Pennsylvania Avenue, N.W. Washington, DC 20004

Robert M. Halprin Crowell & Moring 1001 Pennslyvania Avenue, N.W. Washingto, DC 20004

Robert L. Boxer Vice President - Corporate Counsel MOSCOM Corporation 3750 Monroe Avenue Pittsford, NY 14534

William Goddard
President
Telecommunications Information
Services
4613 West Chester Pike
Newtown Square, PA 19073

Dina M. Gallo
Executive Vice President
& General Counsel
Systems Design & Development, Inc.
Atrium Financial Center
1515 N. Federal Highway
Suite 212
Boca Raton, FL 33432

Eileen Seidowitz President Audits Unlimited, Inc. 139-15 83rd Avenue Briarwood, NY 11435

J. Byron Horner President Utility Audit Company, Inc. P.O. Box 538 Largo, FL 34649-0538

Daniel L. Oldroyd Product Manager Tremco Legal Services, Inc. Bristol Park 277 East 950 South Orem, UT 84058

Thierry Zerbid
Vice President of Technology
Telesoft Corporation
Monterey Plaza
3216 North 3rd Street
Phoenix, AZ 85012

Bruce D. Jacobs
Glenn S. Richards
Fisher Wayland Cooper
Leader & Zaragoza L.L.P.
2001 Pennsylvania Avenue, N.W.
Suite 400
Washington, DC 20006

Gary L. Phillips Counsel for Ameritech 1401 H Street, N.W. Suite 1020 Washington, DC 20005

Albert H. Kramer Robert F. Aldrich Dickstein, Shapiro & Morin, L.L.P. 2101 L Street, N.W. Washington, DC 20037-1526

Rodney L. Joyce Ginsburg, Feldman & Bress 1250 Connecticut Avenue, N.W. Washington, DC 20036

Allen P. Stayman
Director
Office of Insular Affairs
U.S. Department of the Interior
Office of the Secretary
Washington, C 20240

Michael Greenspan President MBG 370 Lexington Avenue New York, NY 10017

Bradley Stillman 1424 16th Street, N.W. Suite 604 Washington, DC 20036

Robert J. Aamoth Jonathan E. Canis Reed Smith Shaw & McClay 1301 K Street, N.W. Suite 1100 - East Tower Washington, DC 20005 Natalie Marine-Street
Telco Communications Group, Inc.
Long Distance Wholesale Club
4219 Lafayette Center Drive
Chantilly, VA 22021

Michael G. Hoffman, Esq. Vartec Telecom, Inc. 3200 W. Pleasant Run Road Lancaster, TX 75146

Wayne Leighton, Ph.D.
James Gattuso
Vice President for Policy Development
Citizens For a Sound Economy Foundation
1250 H Street, N.W.
Suite 700
Washington, DC 20005

Charlene Vanlier Capital Cities/ABC, Inc. 21 Dupont Circle 6th Floor Washington, DC 20036

Howard Monderer National Broadcasting Company, Inc. 11th Floor 1299 Pennsylvania Avenue, N.W. Washington, DC 20004

Randolph J. May Timothy J. Cooney Sutherland, Asbill & Brennan 1275 Pennsylvania Avenue, N.W. Washington, DC 2004-2404

Mark W. Johnson CBS Inc. Suite 1200 600 New Hampshire Avenue, N.W. Washington, DC 20037 Bertram W. Carp Turner Broadcasting, Inc. Suite 956 820 First Street, N.E. Washington, DC 20002

Danny E. Adams Edward A. Yorkgitis, Jr. Kelley Drye & Warren 1200 19th Street, N.W. Washington, DC 20036

Mark P. Sievers William B. Wilhelm, Jr. Swidler & Berlin, Chartered 3000 K Street, N.W. Suite 300 Washington, DC 20007

Cheryl Lynn Schneider Joan M. Griffin BT North America, Inc. 601 Pennsylvania Avenue, N.W. North Building, Suite 725 Washington, DC 20004

Timothy R. Graham Robert G. Berger Joseph M. Sandri, Jr. WinStar Communications, Inc. 1146 19th Street, N.W. Washington, DC 20036

Dana Frix Morton J. Posner Swidler & Berlin, Chartered 3000 K Street, N.W. Suite 300 Washington, DC 20007

Jeffrey L. Sheldon Sean A. Stokes UTC 1140 Connecticut Avenue, N.W. Suite 1140 Washington, DC 20036 Helen E. Disenhaus Kathy L. Cooper Swidler & Berlin, Chartered 3000 K Street, N.W. Suite 300 Washington, DC 20007

Cheryl A. Tritt Joan E. Neil Morrison & Foerster LLP 2000 Pennsylvania Avenue, N.W. Suite 5500 Washington, DC 20006

Samuel A. Simon
Counsel
Telecommunications Research and
Action Center
901 15th Street, N.W.
Suite 230
Washington, DC 20005

Aliceann Wohlbruck
Executive Director
National Association of
Development Organizations
444 North Capitol Street
Suite 630
Washington, DC 20001

Michael J. Ettner
Senior Assistant General Counsel
Personal Property Division
General Service Administration
18th & F Streets, N.W.
Room 4002
Washington, DC 20405

Stuart Zimmerman General Manager Fone Saver, LLC 733 Summer Street Suite 306 Stamford, CT 06901-1019 Dr. Robert Self Market Dynamics 4641 Montgomery Avenue Suite 515 Bethesda, MD 20814-3488

Mark C. Rosenblum Room 3244J1 295 North Maple Avenue Basking Ridge, NJ 07920

Charles H. Helein General Counsel Helein & Associates, P.C. 8180 Greensboro Drive Suite 700 McLean, VA 22102

Wayne V. Black C. Douglas Jarrett Susan M. Hafeli Brian Turner Ashby Keller and Heckman 1001 G Street, N.W. Suite 500 West Washington, DC 20001

Ellen G. Block
James S. Blaszak
Henry D. Levine
Lavine, Blaszak, Block & Boothby
1300 Connecticut Avenue, N.W.
Suite 500
Washington, DC 20036

Mary E. Newmeyer Alabama Public Service Commission P.O. Box 991 Montgomery, AL 36101

Edward Shakin 1320 North Court House Road Eighth Floor Arlington, VA 22201 Robert A. Mazer Albert Shuldiner Vinson & Elkins 1455 Pennsylvania Avenue, N.W. Washington, DC 20004-1008

John W. Pettit
Sue W. Bladek
Richard J. Arsenault
Drinker, Biddle & Reath
901 Fifteenth Street, N.W.
Washington, DC 20005

Thomas K. Crowe Michael B. Adams, Jr. Law Offices of Thomas K. Crowe, P.C. 2300 M Street, N.W. Suite 800 Washington, DC 20037

Cynthia Miller Senior Attorney Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, FL 32399-0850

Michael J. Shortley, III Attorney for Frontier Corporation 180 South Clinton Avenue Rochester, NY 14545

Kathy L. Shobert Director, Federal Affairs 901 15th Street, N.W. Suite 900 Washington, DC 20005

Gail L. Polivy 1850 M Street, N.W. Suite 1200 Washington, DC 20036

Gayle T. Kellner, Esq. Louisiana Public Service Commission P.O. Box 91154 Baton Rouge, LA 70821-9888 Catherine R. Sloan
Richard L. Fruchterman
Richard S. Whitt
Worldcom, Inc.
d/b/a/ LDDS World COm
1120 Connecticut Avenue, N.W.
Suite 400
Washington, DC 20036

Donald J. Elardo Frank W. Krogh Larry A. Blosser Mary J. Sisak 1801 Pennsylvania Avenue, N.W. Washington, DC 20006

Campbell L. Ayling Donald C. Rowe 1111 Westchester Avenue White Plains, NY 10604

Robert S. Tongren
The Office of the Ohio Consumers'
Counsel
77 South High Street
15th Floor
Columbus, OH 43266-0550

Margaret E. Garber 1275 Pennsylvania Avenue, N.W. Washington, DC 20004

Alan Kohler Veronica A. Smith John F. Povilaitis P.O. Box 3265 Harrisburg, PA 17105-3254

James D. Ellis
Robert M. Lynch
David F. Brown
SBC Communications, Inc.
175 E. Houston
Room 1254
San Antonio, TX 78205

Leon M. Kestenbaum Jay C. Keithley Michael B. Fingerhut 1850 M. Street, N.W. 11th Floor Washington, DC 828-7438

Charles C. Hunter Hunter & Mow, P.C. 1620 I Street, N.W. Suite 701 Washington, DC 20006

L. Vincent Williams
Deputy Attorney General
Consumer Advicate Division
State of Tennessee
404 James Robertson Pkwy., Suite 1504
Nashville, TN 37243

Mary McDermott Linda Kent Charles D. Cosson 1401 H Street, N.W. Suite 600 Washington, DC 20005

Robert B. McKenna Coleen M. Egan Helmreich Suite 700 1020 19th Street, N.W. Washington, DC 20036